

**Date:** November 18, 2014

**To:** Thomas J. Bonfield, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Reginald J. Johnson, Director  
Department of Community Development  
**Subject:** Option Contract with Southside Revitalization Phase II LP for the Second Phase of Development for the Lofts at Southside

### **Executive Summary**

In mid-January 2015, Southside Revitalization Phase II LP intends to submit a pre-application to the North Carolina Housing Finance Agency (NCHFA) for Low Income Housing Tax Credits (LIHTC) and other financing to undertake a second phase of mixed-income rental development on the former Rolling Hills site, now known as the Lofts at Southside. One of the pre-application submittal requirements is evidence of site control which can be demonstrated through a valid option contract.

### **Recommendation**

The Department of Community Development recommends that City Council receive a presentation on the status of the Southside redevelopment project and authorize the City Manager to execute an Option Contract with Southside Revitalization Phase II LP for the purchase of up to approximately 5.25 acres on the former Rolling Hills site for the sum of One and No/100 Dollars (\$1.00) subject to conditions outlined in the agenda memo and the Option Contract.

### **Background**

Through a Request for Qualifications process, McCormack Baron Salazar, Inc. (MBS) was selected and approved by City Council as the preferred developer for the redevelopment effort on the former Rolling Hills site. In August of 2011, MBS was awarded LIHTC for the construction of 132 multi-family units with 80 of the units being affordable to households earning 60% or below of the area median income. As construction nears completion for the first phase of development and as defined in the Master Development Agreement (MDA) between the City of Durham and MBS, MBS who has established the limited partnership titled "Southside Revitalization Phase II LP" will apply for an award of LIHTC for the second phase of development in January of 2015. The final application will be due in May of 2015 with the announcement of LIHTC funding anticipated in August of 2015. The current plan is for 85 mixed income rental units to be constructed on the second phase site with 53 of the units being affordable to households earning 60% or below of the area median income.

### **Issues/Analysis**

Tentatively, the second phase of mixed-income rental development proposed by the limited partnership will contain approximately 85 units with 42 of the units being affordable to households with incomes at or below 60% of area median income (AMI), 11 of the units

affordable to households with incomes at or below 30% AMI and the remaining 35 units being market rate. Per NCHFA guidelines, all projects are required to target 10% of the total tax credit units to persons with disabilities or homeless populations.

Based on projected development costs, the project cannot support debt service associated with land acquisition. Therefore, the option purchase price associated with the land conveyance is the sum of One and No/100 Dollars (\$1.00). It should also be noted that additional subsidies associated with site preparation, infrastructure improvements and permanent financing will also be required as defined in the MDA. The amounts of such additional subsidies and the proposed subsidy sources are identified in the MDA. It should be noted that the defined costs in the MDA for site improvements and construction financing could possibly exceed the costs agreed upon in the MDA. MBS is researching ways to save costs in an effort to decrease the anticipated funding gap.

The Department of Community Development recommends that exercise of the option to purchase be subject to the following condition:

- The award by NCHFA of LIHTC and related project financing for the development of not less than 80 residential units.

#### **Alternatives**

Evidence of site control is LIHTC submittal requirement. If the City chooses not to grant an option to acquire a portion of the former Rolling Hills site, Southside Revitalization Phase II LP will not be able to submit an application for LIHTC in the 2015 funding round.

#### **Financial Impact**

Granting the option will have no direct financial impact on general funds. However, development of mixed-income rental housing will generate property tax revenues and will continue to build on the momentum that is spurring other investment in the area.

#### **SDBE Summary**

Should the application for LIHTC be successful, applicable SDBE participation goals will be set by the Office of Equal Opportunity and Equity Assurance for the construction activities.